Annual Report

For the year ended 31 March 2023

NBS Richmond Personal Banker, Jen Low

nbs.co.nz

NBS is not a registered bank

NBS
Banking for life

Celebrating 160 years and our wonderful people

Contents

The 161st Annual Report of the Nelson Building Society

Independent Directors	P A Bell (Chairman) G R Dayman P J Robson T N Cameron A L Fox G L Wilson G W Watt
Chief Executive Officer	A J Cadigan
Secretary	D Toon
Solicitor	Buddle Findlay Glasgow Harley
Banker	Westpac
Auditor	Deloitte Limited
Head Office	111 Trafalgar Street PO Box 62, Nelson 7040

Notice Of Annual General Meeting

Notice is hereby given that the One Hundred and Sixty First Annual General Meeting of Shareholders of the Nelson Building Society will be held at The Nelson Building Society, 111 Trafalgar Street, Nelson on 26 July 2023 at 5pm.

Ordinary Business

1. To receive the Directors' Report and Statement of Accounts
2. To appoint the Auditor's for the ensuing year
3. General Business

A J Cadigan
Chief Executive Officer

Key financial results

Profit before tax

$13.87m

2022: 17.5m

Total lending

$889m

total lending

2022: 862m

Total deposits

$1.017b

total deposits

2022: 981m

Community sponsorship

$1.14m

2022: 1.01m

Total assets

2022/23	1.13b
2021/22	1.08b
2020/21	948m
2019/20	865m
2018/19	829m

NBS Chief Executive, Tony Cadigan, and Chairman of Directors' Paul Bell.

Chairman and CEO's report

Welcome to the Nelson Building Society (NBS) Annual Report for the year ending March 2023.

In addition to detailing key financial highlights, this report celebrates our talented people, who every year bring the energy and focus needed to ensure the continued success of our banking business. In November last year we celebrated our 160th year in business, bringing our teams together to recognise this milestone, but also to acknowledge and thank the hard work and dedication of our staff.

Financials

Key financial results for 2023 include profit before taxation of $13.87m, down on last years result. Our profit has been affected by several factors including the impact of the current economic cycle, increasing costs as we build capacity, and the execution of a prudent process around credit provisioning. Overall growth across assets, deposits and loans was also lower than previous years, although our deposits did increase to be over $1b at year end for the first time.

Lending activity has been subdued, with growth of only 3% to $889m, as the property market and resulting loan volumes contracted from the peaks of 2022.

Despite a very rapid rise in interest rates this business year, our clients are showing considerable resilience in managing higher loan costs. Loan arrears have remained low due to our robust assessment criteria, along with our clients knowing that they can engage with a local NBS staff member to consider possible options and provide workable solutions. Strong employment conditions in our regions have also underpinned the quality of our loan book.

Governance

The NBS Board strives to deliver best practice governance via effective and independent oversight, along with a commitment to continuous improvement. It's fitting to recognise the valuable contribution from outgoing director Phil Robson, who recently retired after 24 years of service.

Strategic Framework

In conjunction with the NBS Senior Leadership Team we've recently revisited the Vision, Mission and Purpose of NBS, and developed a strategic framework that will provide a clear focus for the business over the next 1-2 years. We recognise that NBS has grown quickly in the past decade to become a sizeable banking entity, exceeding $1b of funds under management and delivering banking services to 20,000 clients.

We also know that to fulfil our goal of becoming a secure, sustainable and respected banking business, we must build capacity and capability across key functions of our organisation. This means considerable investment in our people, technology, financial resilience, product development, and ensuring continued adherence to our regulatory obligations.

Improved Financial Performance Rating

Along with our strong liquidity and capital ratios that we achieved throughout the 2022-23 year, another important indicator of the overall financial performance and resilience of NBS is our credit rating. The last review by Fitch Ratings on NBS occurred in February 2023 and revised the outlook on NBS of 'BB+' to 'Positive', from 'Stable'. This rating improvement reflected the overall strength of NBS and specifically the work we have been undertaking with the Reserve Bank of New Zealand on a new capital instrument (in the form of an ordinary share).

Client Satisfaction

We often use this report to highlight the key differences between NBS and others who provide banking services.

Firstly, we pride ourselves on delivering a positive client experience by offering a truly local and superior level of service. Recently we surveyed our home loan and term investment clients and asked them how they ranked NBS across a number of key service indicators. It was pleasing to receive very high ratings of overall client satisfaction; with the number one reason they chose NBS as their provider of banking services being due to 'personal service from local people'.

Community Engagement

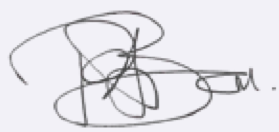
The second main point of difference between NBS and many others in the banking sector is the meaningful financial support we provide to organisations that make a difference in our regions. A record $1.14m of sponsorship funding was distributed this year to hundreds of non-for-profit groups whose mahi delivers important and beneficial outcomes for our communities.

A Sustainable Future

We recognise that climate change is a significant threat to our community and all communities around the world. We've started a journey to play our part in reducing emissions, firstly by identifying our carbon footprint and looking to take meaningful actions by engaging our people and in time our clients, to take action. We're also placing more of our sponsorship spend on supporting organisations who are delivering positive outcomes around carbon reduction and sequestration.

We're excited about the future of NBS.
Our client owned mutual model supports the provision of banking services in regional New Zealand, focuses on superior service delivery and shares its profits to deliver improved societal outcomes.   We aim to be a leader in financial services and to earn and retain the trust of our clients every day. In the near term however, we have a clear focus to invest in our people and banking infrastructure. Only then can we realise our long-term potential and aspirations.

A J Cadigan
Chief Executive Officer



P A Bell
Chairman of Directors

Financial Statements

Deloitte.

Independent Auditor's Report

To the Members of Nelson Building Society

Opinion

We have audited the financial statements of Nelson Building Society (the 'Society'), which comprise the statement of financial position as at 31 March 2023, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 12 to 47, present fairly, in all material respects, the financial position of the Society as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Society in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Society in the area of taxation compliance and other assurance services. These services have not impaired our independence as auditor of the Society. In addition to this, partners and employees of our firm deal with the Society on normal terms within the ordinary course of trading activities of the business of the Society. The firm has no other relationship with, or interest in, the Society.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit loss (Refer to Notes 6 and 7) The Expected Credit Loss (ECL) impairment model under NZ IFRS 9 takes into account forward looking information reflecting potential future economic events. This has resulted in the Society developing models which are reliant on large volumes of data, as well as significant estimates around probability of default ('PoD'), loss given default ('LgD') and exposure at default ('EAD'). We consider the risk around the determination of expected credit losses to be a key audit matter because: • Loans and Receivables, including mortgages, commercial, personal and consumer loans, are financially significant account balances; • The model used to calculate ECLs are inherently complex and judgement is applied in determining the correct form of the model to be applied; • Judgement is applied in determining the most appropriate information and datasets to be used as inputs to the models and requires us to challenge the appropriateness of management's assumptions in the calculation of the provision; • There are a number of key assumptions made by the Society as inputs into the models (e.g.: statistical and economic forecasts used to determine forward looking loan PoD and LgD rates); • Specific provisions are based on the application of management judgement with the assessment of expected future cash flows being inherently uncertain and judgemental as they are principally derived from estimating the timing and proceeds from the future sale of property securing loans.	We assessed the assumptions used to develop the models and, more broadly, the NZ IFRS 9 framework implemented by the Society. We performed the following audit procedures, amongst others: • Evaluated the systems, processes and controls in place over the critical data elements used in the ECL models, including general IT controls for key applications used by the Society in estimated the ECL; • Assessed the Society's accounting policies and ECL methodology and approach against the requirements of NZ IFRS 9; • Evaluated the macroeconomic forecasts used by management by benchmarking against other externally available forecasts, and performed sensitivity analyses of these forecasts; • Assessed the completeness and accuracy of key model inputs such as loan data; • Validated the ECL model outputs by involving our credit risk specialists to perform an independent challenger model to form an independent estimate of the provision for credit impairment using externally available data; • Benchmarked ECL rates against the historic losses incurred by the Society and comparator analysis against other relevant financial institutions; • Evaluated the probability weightings allocated to the multiple economic scenarios by benchmarking against industry trends and considering the appropriateness of selected weightings; • For a sample of exposures, assessed for any objective evidence of impairment and subsequently assessed their staging within the model; • Challenged management on the appropriateness of the overlays applied including the scope of their application; • Assessed management judgement around specific provisioning and whether this is in accordance with their ECL policy; • Re-performed the specific impairment provision calculation for a sample of individual exposures; • Assessed loans in arrears to determine whether they were being appropriately monitored and reflected in the provision for expected credit loss; and • Evaluated the disclosures made in relation to provision for expected credit losses against the requirements of NZ IFRS.

Other information

The directors are responsible on behalf of the Society for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Directors' responsibilities for the financial statements	The directors are responsible on behalf of the Society for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible on behalf of the Society for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.
Auditor's responsibilities for the audit of the financial statements	Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2 This description forms part of our auditor's report.
Restriction on use	This report is made solely to the Society's members, as a body. Our audit has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Nicole Dring, Partner
for Deloitte Limited
Christchurch, New Zealand
28 June 2023

This audit report relates to the financial statements of Nelson Building Society (the 'Society') for the year ended 31 March 2023 included on the Society's website. The Directors are responsible for the maintenance and integrity of the Society's website. We have not been engaged to report on the integrity of the Society's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 June 2023 to confirm the information included in the audited financial statements presented on this website.

Income statement

For the year ended 31 March 2023

	Note	Year to 31/03/2023	Year to 31/03/2022
Income		**$**	**$**
Interest Income Received From:			
Income from Mortgages & Personal Loans		40,229,661	29,734,932
Income from Consumer Lending		7,803,663	8,375,312
Income from Bank Deposits, Investments & Debentures		5,599,590	2,642,945
Total Interest Income		**53,632,914**	**40,753,189**
Finance Costs			
Interest on Term & Call Deposits		(18,859,268)	(9,000,798)
Consumer Lending Commission		(3,215,494)	(3,504,162)
		(22,074,762)	(12,504,960)
Net Interest Income		**31,558,152**	**28,248,229**
Other Income			
Bad Debts Recovered		16,373	29,873
Transaction & Service Fees		1,215,827	1,072,576
Other Income		530,100	442,103
		1,762,300	**1,544,552**
Gross Contribution From Activities		**33,320,452**	**29,792,781**
Overhead Expenses			
Auditor's Remuneration	1	(177,043)	(159,799)
Administration Expenses	2	(6,196,133)	(5,277,556)
Amortisation & Depreciation		(822,191)	(793,103)
Right of Use Asset Amortisation & Interest	9	(479,023)	(428,825)
Directors Fees	23	(387,000)	(337,584)
Personnel Cost		(7,594,184)	(5,560,122)
Provision for Credit Impairment	6	(2,649,141)	1,306,241
Sponsorship		(1,140,057)	(1,016,900)
Total Expenses		**(19,444,772)**	**(12,267,648)**
Surplus Before Taxation		**13,875,680**	**17,525,133**
Income Tax Expense	3	(3,931,384)	(4,953,902)
Net Surplus		**9,944,296**	**12,571,231**

The Notes to the Financial Statements (pages 17 to 47) form part of and should be read in conjunction with these financial statements.

Statement of comprehensive income

For the year ended 31 March 2023

	Year to 31/03/2023	Year to 31/03/2022
	$	$
Surplus for the year	**9,944,296**	**12,571,231**
Movement on Revaluation of Property Net of Income Tax	-	(314,233)
Other Comprehensive Income for the Year, Net of Income Tax	**-**	**(314,233)**
Total Comprehensive Income for the Year	**9,944,296**	**12,256,998**

Statement of changes in equity

For the year ended 31 March 2023

	Note	Share Capital	Reevaluation Reserve	Retained Earnings	Total
		$	$	$	$
Balance as at 31 March 2021		**50,638,500**	**1,374,083**	**40,450,117**	**92,462,700**
Net Surplus and Other Comprehensive Income		-	(314,233)	12,571,231	12,256,998
Shares Net Movement	13	(370,000)	-	-	(370,000)
Dividends Paid	13	-	-	(1,513,272)	(1,513,272)
Balance as at 31 March 2022		**50,268,500**	**1,059,850**	**51,508,076**	**102,836,426**
Net Surplus and Other Comprehensive Income		-	-	9,944,296	9,944,296
Shares Net Movement	13	(147,500)	-	-	(147,500)
Dividends Paid	13	-	-	(2,100,888)	(2,100,888)
Balance as at 31 March 2023		**50,121,000**	**1,059,850**	**59,351,484**	**110,532,334**

Approval of Financial Statements for the Year Ended 31 March 2023

Authorised for Issue

These financial statements were authorised for issue on and behalf of the Board of Directors on 28 June 2023.

A J Cadigan
Chief Executive Officer

P A Bell
Chairman of Directors

G R Dayman
Director

The Notes to the Financial Statements (pages 17 to 47) form part of and should be read in conjunction with these financial statements.

Statement of financial position

As at 31 March 2023

	Note	Year to 31/03/2023	Year to 31/03/2022
Assets		**$**	**$**
Cash and Cash Equivalents	4	160,805,654	155,357,896
Term Deposits		71,711,738	62,387,588
Trade Receivables		84,513	31,151
Prepayments		1,659,447	907,815
Deferred Taxation	3	2,290,644	1,166,024
Loans and Receivables			
Mortgages		814,687,789	777,008,925
Personal Loans		785,729	1,259,662
Consumer Lending		79,103,702	87,638,180
Less Provision for Credit Impairment	6	(5,558,577)	(3,580,914)
	5	**889,018,643**	**862,325,853**
Property			
Property, Plant & Equipment	8	5,098,329	4,870,956
Right of Use Asset	9	1,919,441	744,695
Intangible Assets			
Software	10	120,608	491,537
Total Assets		**1,132,709,017**	**1,088,283,515**
Liabilities			
Employee Entitlements		744,275	485,654
Trade and Other Payables	11	2,021,326	1,144,039
Lease Liability	9	2,055,862	791,957
Current Tax Liabilities	3	785,342	1,729,338
Borrowings	12	1,016,569,878	981,296,101
Total Liabilities		**1,022,176,683**	**985,447,089**
Net Assets		**110,532,334**	**102,836,426**
Equity			
Share Capital	13	50,121,000	50,268,500
Retained Earnings		59,351,484	51,508,076
Revaluation Reserve		1,059,850	1,059,850
Total Equity		**110,532,334**	**102,836,426**

The Notes to the Financial Statements (pages 17 to 47) form part of and should be read in conjunction with these financial statements.

Statement of cash flows

For the year ended 31 March 2023

	Note	Year to 31/03/2023	Year to 31/03/2022
Cash Flows From Operating Activities		**$**	**$**
Interest Received		54,875,867	42,469,083
Other Income		1,762,300	1,544,552
Interest Paid		(18,434,506)	(13,091,561)
Operating Expenses		(15,861,523)	(13,027,438)
Income Taxes Paid	3	(6,000,000)	(4,200,000)
Net Cash Flows From Operating Activities Before Changes in Operating Assets and Liabilities		**16,342,138**	**13,694,636**
Net Change from Operating Assets and Liabilities			
Change in Loans and Receivables		(29,669,360)	(146,282,843)
Change in Borrowings		31,633,521	130,655,004
Net Cash Flows Provided by (Used in) Operating Activities		**18,306,299**	**(1,933,203)**
Cash Flows From Investing Activities			
Cash was Provided From:			
Change in Term Deposits		(9,568,197)	89,351,397
Sale of Property, Plant & Equipment		36,327	89,801
Purchase of Property, Plant & Equipment	8	(696,987)	(1,973,223)
Purchase of Intangible Assets	10	(3,414)	(256,144)
Net Cash Flows (Used in) Provided by Investing Activities		**(10,232,271)**	**87,211,831**
Cash Flows From Financing Activities			
Shares Net Movement	13	(147,500)	(370,000)
Dividends Paid	13	(2,100,888)	(1,513,272)
Repayment of Lease Liabilities		(377,882)	(418,878)
Net Cash Flows Used in Financing Activities		**(2,626,270)**	**(2,302,150)**
Net Increase in Cash		5,447,758	82,976,478
Opening Cash and Cash Equivalents		155,357,896	72,381,418
Closing Cash and Cash Equivalents	4	**160,805,654**	**155,357,896**

The Notes to the Financial Statements (pages 17 to 47) form part of and should be read in conjunction with these financial statements.

Statement of cash flows

For the year ended 31 March 2023

	Note	Year to 31/03/2023	Year to 31/03/2022
		$	$
Reconciliation Of Net Surplus To Cash Flows From Operating Activities			
Net Surplus		9,944,296	12,571,231
Non Cash Items			
Deferred Taxation		(1,124,620)	382,408
Amortisation and Depreciation		822,191	824,691
(Gain) or Loss on Disposal of Assets		(14,561)	15,334
Right of Use Asset Amortisation		467,041	428,825
Change in Provision for Credit Impairment		1,977,663	(1,358,496)
Change in Accrued Interest on Borrowings		3,640,256	(586,601)
Change in Accrued Interest on Term Deposits		244,047	1,715,895
Change in Deferred Establishment Fee Revenue		998,907	-
		7,010,924	1,422,056
Movement in Working Capital			
Change in Trade and Other Payables		877,287	(894,944)
Change in Current Tax Liabilities		(943,996)	371,494
Change in Trade Receivables		(53,362)	48,953
Change in Prepayments		(751,632)	14,157
Change in Employee Entitlements		258,621	161,689
Change in Loans and Receivables		(29,669,360)	(146,282,843)
Change in Borrowings		31,633,521	130,655,004
		1,351,079	(15,926,490)
Net Cash Flows From Operating Activities		**18,306,299**	**(1,933,203)**

The Notes to the Financial Statements (pages 17 to 47) form part of and should be read in conjunction with these financial statements.

Notes to the financial statements

For the year ended 31 March 2023

Summary of Significant Accounting Policies

Statement Of Compliance

Nelson Building Society (NBS) was established in 1862 and is a profit-oriented mutual entity incorporated in New Zealand under the Building Societies Act 1965. NBS is a financial institution which provides retail banking type services to the community. Banking services include personal and commercial loans, investments, mortgages and electronic banking.

NBS' financial statements have been prepared in accordance with Generally Accepted Accounting Practice ('GAAP') in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit orientated entities. The financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

NBS is an FMC Reporting Entity as defined in the Financial Markets Conduct Act 2013.

The financial statements were authorised by the directors on 28 June 2023.

Basis Of Preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain assets such as freehold land and buildings. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that NBS have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Presentation Currency

The amounts contained in the financial statements are presented in New Zealand dollars (NZD). New Zealand dollars is the functional currency of NBS.

Principal Activities

NBS' principal activities during the year were:

- Receiving deposits for investments; and
- Providing personal banking services including current accounts, personal loans, mortgages, consumer lending and debit card facilities.

Particular Accounting Policies

a. **Revenue Recognition**
Revenue is recognised to the extent that it is probable that economic benefits will flow to NBS and that revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

- **Interest Income**

  Interest income for all instruments measured at amortised cost is recognised in the Income Statement as it accrues using the effective interest method.

  The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

  The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability initially recognised. When calculating the effective interest rate, cash flows are estimated based upon contractual terms and behavioural aspects of the financial instrument (e.g. prepayment options), but do not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

- **Loan Origination fees**

  All fees related to the successful origination or settlement of a loan (together with the related direct costs) are deferred and are recognised as an adjustment to the effective interest rate on the loan.

- **Fee and Commission Income**

  Fees and commission income from contracts with Clients is measured based on the consideration specified in the contracts with the Client. NBS recognises revenue when it transfers control over a service to a Client.

  NBS provides banking services to retail and corporate Clients including account management, provision of overdraft facilities, foreign exchange and servicing fees. Fees for ongoing account management are charged to the Clients account on a monthly basis. Transaction based fees for interchange foreign currency transactions and overdrafts are charged to the Clients account when the exchange takes place. Service fees are charged on a monthly basis and are based on fixed and variable rates.

  Revenue from account servicing and servicing fees is recognised over time as the services are provided to the Clients. Revenue related to transactions is recognised at the point in time when the transaction takes place.

b. Expense Recognition

- **Interest Expense**

  Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the Income Statement for all financial liabilities measured at amortised cost using the effective interest method.

- **Losses on Loans and Receivables Carried at Amortised Cost**

  The charge recognised in the Income Statement for losses on loans and receivables carried at amortised cost reflects the provisions for individually assessed and collectively assessed loans, write offs and recoveries of losses previously written off. Further detail is included in notes 6 & 7 of the Financial Statements.

- **Commissions and Other Fees**

  External commissions and other costs paid to acquire mortgage and consumer loans through brokers are deferred and are recognised as an adjustment to the effective interest rate. All other fees and commissions are recognised in the Income Statement over the period which the related service is consumed.

c. Income Tax

Income tax expense on the profit for the period comprises current tax and movements in deferred tax balances. Current tax is the expected tax payable or recoverable on the taxable profit or tax loss for the period, using tax rates that have been enacted or substantively enacted as at balance date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the comprehensive balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at balance date that are expected to apply when the liability is settled or the asset is realised.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax or current tax is also recognised directly in other comprehensive income or directly in equity.

d. Goods And Services Tax

Revenue, expense, liabilities and assets are recognised gross of the amount of goods and services tax (‘GST’). GST is recoverable in direct proportion to the NBS’ commercial clients on all expenditure, pursuant to Section 20F of the Goods and Services Tax Act 1985.

Notes to the financial statements

For the year ended 31 March 2023

e. Assets

Financial Assets

- **Classification of Financial Assets**

  Management determines the classification of its financial assets at initial recognition. The classification depends on the NBS' business model for managing the financial assets and the contractual terms of the cash flows. NBS reclassifies financial assets when and only when its business model for managing those assets changes.

  NBS' financial assets are measured in their entirety at amortised cost as they are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

- **Recognition and Measurement of Financial Assets**

  Financial Assets are recognised when NBS becomes party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on trade-date or the date on which NBS commits to purchase or sell the asset.

  Financial instruments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the instrument.

  Subsequent to initial recognition NBS measures financial assets at amortised cost, using the effective interest rate method less expected credit losses.

- **Derecognition of Financial Assets**

  NBS derecognises a financial asset from its Statement of Financial Position when, and only when, the contractual rights to the cash flows from the financial asset expire, or NBS has transferred all or substantially all of the risks and rewards of ownership of the financial asset.

  For financial assets measured at amortised cost, a gain or loss is recognised in profit and loss when the financial asset is derecognised or impaired.

  Any gain or loss arising from derecognition is recognised directly in profit and loss and presented in other gains (losses).

Loans and Receivables

Loans and Receivables cover all forms of lending to Clients such as mortgages, consumer loans and personal loans. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost using the effective interest rate method, less expected credit loss allowance where applicable.

Subsequent to initial recognition Loans and Receivables are recorded at amortised cost using the effective interest method less impairment.

Trade Receivables

Trade Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, less impairment where applicable.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in branches, cash on call and cash equivalents. Cash equivalents are short term (generally with an original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk in changes in value. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

Money market instruments (short term deposits) are recorded at amortised cost.

Term Deposits

Term deposits are recorded at amortised cost using the effect interest rate method.

Impairment

At the end of each reporting period, NBS performs an impairment assessment based on expected credit loss on financial assets measured at amortised cost.

Notes to the financial statements

For the year ended 31 March 2023

Measuring ECL - Explanation of Inputs, Assumptions and Estimation Techniques

The expected credit loss (ECL) is recognised on either a 12 month or lifetime basis. Lifetime basis are used only where a significant increase in credit risk has occurred since initial recognition or a financial instrument is considered to be credit impaired. Expected credit losses are the discounted product of the weighted average of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) where:

- PD represents the consideration of forward-looking information on the likelihood of a borrower defaulting on its financial obligation in the future
- LGD represents an estimate of loss arising after consideration of forward-looking information on NBS' expectation. It is expressed as a percentage of EAD
- EAD is based on the total amount of risk exposure on and off balance sheet at the time of default. The exposure is determined by the repayment plan according to different types of product

NBS applies a four-stage model in accordance with NZ IFRS 9:Financial Instruments, to measure expected credit losses associated with its debt instruments measured at amortised cost. The four stage model is as follows:

Stage 1	**Not deteriorated**	ECL is based on the 12 month expected credit losses that may occur in the 12 months after reporting date. The expectation is estimated by using a combination of historical losses and forward-looking base case economic scenarios to assess the entire loan book. Stage 1 includes financial assets belonging to Clients with a low risk of default that have a strong capacity to meet contractual cash flows (interest and/or principal repayments).
Stage 2	**Deteriorated: Accounts 30 days or more in arrears**	Lifetime ECL is the result from possible default events over the expected life of a financial instrument that are objective and measureable. When such an event occurs the financial asset is moved from Stage 1 to Stage 2. Increase in credit risk is presumed if the loans and advances are 30 days or more past due in making contractual repayment or when there is reasonable and/or supportable information that there is an increase in the risk of default occurring on the asset as at the reporting date.
Stage 3	**Credit Impairments**	When objective evidence of credit impairments emerges with one or more events having a detrimental impact on future cash flows the financial asset is moved to Stage 3. NBS considers observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. Loans and advances are deemed credit impaired when they are 90 days or more past due in making contractual repayments and/or when there is objective evidence of the events that indicate the borrower is in significant financial difficulty and/or NBS has exhausted all options to rehabilitate a debt and expects to incur a loss. The Loan to Value Ratio (LVR) is monitored to evaluate whether sale proceeds from the sale of the security would satisfy the value of the outstanding financial asset. Where appropriate impaired assets are specifically provided for on an individual basis.
Stage 4	**Loss**	Financial assets are written off when NBS has exhausted all of its powers in respect of the security held and there are no further avenues to recover the amounts outstanding to NBS.

Notes to the financial statements

For the year ended 31 March 2023

Across the 4-stage model, NBS uses a probability weighted scenario approach to determine the final expected credit loss provision. The three scenarios are high, mid and low case with each scenario incorporating different economic assumptions. A probability is applied to each scenario to determine the final provision. NBS' Board of Directors review and approve the probabilities weightings applied.

At the end of each reporting period, NBS assesses whether there has been a significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between that of the reporting date to that of the date of initial recognition.

NBS assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type (mortgage, consumer and/or personal loans) credit risk ratings, collateral and other relevant factors.

NBS considers its historical loss experience and adjusts this for current observable data. In addition, NBS uses reasonable and supportable forecast of future economic conditions including experienced judgement to estimate the amount of an expected credit loss. NZ IFRS 9 introduces the use of macroeconomic factors which include, but are not limited to, unemployment, interest rates, inflation and expected movement in property prices. Consideration is also given to the current and forecast direction in economic cycles. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL.

The methodology and assumptions underlying the ECL calculation are reviewed annually.

If in a subsequent period, the credit quality improves and reverses any previously assessed increase in credit risk since origination, the provision for expected credit loss reverts from a full lifetime ECL to 12 months ECL.

Nature and Effect of Modifications on the Measurement of Expected Credit Losses

NBS sometimes renegotiates or otherwise modifies contracts with counterparties. The revised terms may alter the timing of the contractual cash flow and do not result in derecognition of the original loan unless the revision terms are substantially different to those of the existing loan. In these cases, NBS assesses whether a significant increase in credit risk has occurred, by comparing the risk of default occurring under the revised terms as at the reporting period with the initial recognition under the original terms.

f. Property, Plant and Equipment

Land and Buildings are initially recognised at cost and are subsequently measured at fair value by an independent registered valuer. Valuations of Land and Buildings are carried out at least once every three years. Land and Buildings are carried at the revalued amount less accumulated depreciation and accumulated impairment losses. Other items of Property, Plant and Equipment are carried at cost less accumulated depreciation and impairment losses.

Cost of an asset is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition of the asset and includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in Income Statement as an expense as incurred. Impairment losses are included in the Statement of Comprehensive Income in Movement in Revaluation of Property net of Income Tax to the extent that there is a credit balance held in the revaluation reserve in respect of that land and buildings. Any impairment losses exceeding the balance held in the revaluation reserve relating to a previous revaluation of that asset is recognised in the Income Statement.

An item of Property, Plant and Equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the period the item is derecognised.

Revaluation

Land and Buildings are carried at the revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation of buildings and accumulated impairment losses.

Where the land and building is revalued, any revaluation surplus net of tax is credited in other comprehensive income and accumulated in the asset revaluation reserve included in equity unless it reverses a revaluation decrease of the same asset previously recognised in the profit and loss. Any revaluation deficit is recognised in the profit and loss unless it directly offsets a previous surplus of the same asset recognised in the asset revaluation reserve. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to a particular asset being disposed is transferred to retained earnings.

Depreciation

Depreciation is provided in the financial statements on all Property, Plant and Equipment other than land, on a basis which will write down the net cost or revalued amount of each item of Property, Plant and Equipment over its expected useful life.

Depreciation rates are reviewed annually.

The following methods and rates have been applied to the major categories:

	Estimated Life	Method
Buildings	67 Years	Straight line
Computer Equipment and Hardware	2-5 Years	Straight line
Other Assets (including motor vehicles, promotional items, signage, office equipment and office fitout and furniture)	2-7 Years	Straight line

g. **Intangible Assets**

Software is a finite life intangible asset and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of 3 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

h. **Leases**

NBS assesses whether a contract is or contains a lease, at inception of the contract. NBS recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases, defined as leases with a lease term of 12 months or less. For these leases, NBS recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of Financial Position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, using the effective interest method, and by reducing the carrying amount to reflect the lease payments made.

NBS remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate unless the lease payments change is due to a change in a variable interest rate, in which case a revised discount rate is used.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever NBS incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. To the extent that the costs relate to a right of use asset, the costs are included in the related right of use asset.

Notes to the financial statements

For the year ended 31 March 2023

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that NBS expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right of use assets are presented as a separate line in the Statement of Financial Position.

NBS applies NZ IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'other expenses' in the Income Statement.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. NBS has not used this practical expedient. For contracts containing a lease component and one or more additional lease or non-lease components, NBS allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

i. Liabilities

NBS classifies its financial liabilities at amortised cost.

Borrowings

Term and Call borrowings are measured initially at fair value plus transaction costs. Subsequent to initial recognition Term and Call borrowings are measured at amortised cost and are recorded in the Statement of Financial Position inclusive of accrued interest. Interest payable on borrowings is recognised using the effective interest rate method.

Derecognition of Financial Liabilities

NBS derecognises a financial liability from its Statement of Financial Position, when and only when, it is extinguished.

Trade and Other Payables

Trade and other payables and accrued expenses are recognised when NBS becomes obliged to make future payments resulting from the purchase of goods and services. They are measured initially at fair value plus transaction costs. Subsequent to initial recognition trade and other payables are carried at amortised cost. These amounts are unsecured.

Employee Entitlements Wages and Salaries, Annual Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave wholly expected to be settled within 12 months of the balance date are recognised in other provisions in respect of employees' services and are measured at the amounts expected to be paid when the liabilities are settled.

j. Equity

Debt and Equity Instruments

Perpetual Preferential Shares are classified as equity and are recognised at the amount paid per Perpetual Preferential Share.

Debt and Equity instruments are classified in accordance with the substance of the contractual arrangement.

Interest and Dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments.

k. Statement of Cash Flows

Basis of Presentation

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items disclosed below.

Operating activities are the principal revenue producing activities of NBS and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity of the entity.

Notes to the financial statements

For the year ended 31 March 2023

Cash and Cash Equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of NBS.

Netting of Cash Flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of clients and reflect the activities of those clients rather than NBS. These include client borrowings.

l. Significant Judgements, Accounting Estimates and Assumptions

The preparation of the financial statements requires the use of management judgements, estimates and assumptions that affect the application of accounting policies and the carrying values of assets and liabilities that are not readily available from other sources. The judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgements, estimates and assumptions made by management in the application of NZ IFRS and in the preparation of these financial statements are outlined as follows:

- **Impairment Analysis**

  For the year ended 31 March 2023 the significant accounting estimates and judgements of NZ IFRS 9 used by NBS include the measurement of expected credit losses.

  The measurement of the expected credit loss allowance is based on the standard's expected credit loss (ECL) model. This requires the use of complex models and significant assumptions about economic conditions and credit behaviour (eg the likelihood of clients defaulting and the resulting losses).

  Post pandemic, the challenges facing the economy have resulted in continued estimation uncertainty in the determination of provision for expected credit. Given the inherent unpredictability associated with the economy, inflation, global supply chain concerns, and geo-political factors, the actual credit loss could be significantly different to the estimations disclosed.

  A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

  i. Determining criteria for significant increase in credit risk
  ii. Choosing appropriate models and assumptions for the measurement of expected credit losses
  iii. Establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated expected credit losses
  iv. Establishing groups of similar financial assets for the purpose of measuring expected credit losses, and
  v. Estimating the fair value of underlying collateral.

m. Changes In Accounting Policies

All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements.

There have been no changes in accounting policies.

n. New and Revised NZ IFRS Standards in issue but not yet effective

There are a number of Standards, Amendments and Interpretations which have been approved but are not yet effective that NBS expects to adopt when they become mandatory. None are expected to result in a material impact on NBS' financial statements.

o. Comparative figures

There have been a number of prior year comparatives which have been reclassified to make disclosure presentation consistent with the current year.

Unrecognised loan commitments has been restated by increasing by 55,964,715 in the prior year to include the undrawn balance of revolving credit loans. This has had the impact of restating the unrecognised loan commitments as shown in Notes 6, 14, 17 and 19.

Notes to the financial statements

For the year ended 31 March 2023

1. Auditor's Remuneration

	Year to 31/03/2023	Year to 31/03/2022
Assurance services in respect of financial statement audit	140,300	130,680
Assurance services in respect of Trustee reporting	18,400	17,250
Non Assurance services in respect of taxation compliance	18,343	11,869
	177,043	**159,799**

2. Administration Expenses

	31/03/2023	31/03/2022
Branch and Operational Expenses	2,072,010	1,775,173
Marketing Expenses	767,205	689,983
Computer Expenses	2,113,073	1,710,422
Property Expenses	268,055	291,365
Professional Expenses	975,790	810,613
	6,196,133	**5,277,556**

3. Taxation

	31/03/2023	31/03/2022
(a) Income Tax Recognised in the Income Statement		
Current Income Tax Expense	5,161,790	4,687,904
Adjustments Recognised in Relation to the Current Income Tax of Prior Periods	(105,786)	(116,409)
Deferred Tax Expense Relating to the Origination and Reversal of Temporary Differences	(1,232,599)	265,070
Adjustments Recognised in Relation to the Deferred Tax of Prior Periods	107,979	117,337
Total Income Tax Expense Recognised in the Income Statement	**3,931,384**	**4,953,902**
The prima facie income tax expense on pre tax accounting surplus reconciles to the income tax expense in the financial statements as follows:		
Surplus Before Tax	13,875,680	17,525,133
Taxation Thereon at 28%	3,885,191	4,907,037
Tax Effect of Expenses That are not Deductible in Determining Taxable Profit	44,000	45,937
Under Provision of Income Tax in Previous Year	2,193	928
Income Tax expense recognised in the Income Statement	**3,931,384**	**4,953,902**

The tax rate used on the above reconciliation is the corporate tax rate of 28% (31 March 2022: 28%) payable by New Zealand companies under New Zealand tax law.

	31/03/2023	31/03/2022
(b) Current Tax Liability		
Balance at the Beginning of the Year	1,729,338	1,357,843
Current Income Tax Expense	5,161,790	4,687,904
Adjustments Recognised in Relation to the Current Income Tax of Prior Periods	(105,786)	(116,409)
Taxation Paid	(6,000,000)	(4,200,000)
Balance at End of Year	**785,342**	**1,729,338**

Notes to the financial statements

For the year ended 31 March 2023

	31/03/2023	31/03/2022
(c) Deferred Tax Balances		
Balance at the Beginning of the Year	1,166,024	1,426,231
Charged to the Income Statement	1,124,620	(382,407)
Charged to Comprehensive Income	-	122,200
Balance at End of Year (Deferred Tax Asset)	**2,290,644**	**1,166,024**
Deferred Tax Relates To:		
Provision for Credit Impairment	1,782,139	1,066,223
Property, Plant & Equipment	(156,547)	(154,074)
Leases	38,198	13,233
Employee Entitlements	169,999	135,983
Other Temporary Differences	456,855	104,659
	2,290,644	**1,166,024**
Deferred Tax Recognised in the Income Statement:		
Provision for Credit Impairment	715,917	(380,379)
Property, Plant & Equipment	(2,970)	(199)
Leases	24,964	2,785
Employee Entitlements	32,057	45,274
Other Temporary Differences	354,652	(49,888)
Total Deferred Tax Recognised in the Income Statement	**1,124,620**	**(382,407)**
Deferred Tax Recognised in Other Comprehensive Income:		
Asset Revaluation Reserve	-	122,200
(d) Imputation Credit Account		
Opening Balance	19,170,363	15,418,214
Taxation paid	6,000,000	4,200,000
Dividends paid	(817,021)	(579,951)
Prior year Adjustment	(147,471)	132,100
Imputation Credits Available for use at Balance Date	**24,205,871**	**19,170,363**

4. Cash And Cash Equivalents

	31/03/2023	31/03/2022
Bank Deposits at Call	148,354,218	44,001,431
Term Deposits held with New Zealand banks	10,021,863	109,183,204
Cash on Hand	2,429,573	2,173,261
	160,805,654	**155,357,896**

Guarantees of $1,500,000 have been issued by Westpac New Zealand Limited of behalf of NBS
(31 March 2022: $1,500,000)

Notes to the financial statements

For the year ended 31 March 2023

5. Loans And Receivables

		31/03/2023	31/03/2022
Secured		893,791,491	864,647,105
Unsecured		785,729	1,259,662
Gross Advances		**894,577,220**	**865,906,767**
Less Provisions for Credit Impairment	Note 6	(5,558,577)	(3,580,914)
Total Net Advances		**889,018,643**	**862,325,853**

6. Provision for Expected Credit Loss

NBS manages NBS' performance from a product perspective and has identified the following segments of its business:

Residential: This part of the business offers home loans to Clients.

Commercial: This part of the business offers commercial loans to Clients.

Consumer: This type of loan allows Clients to borrow a lump sum for a particular purposes (e.g. car loans) through a dealer network.

Personal: This type of loan allows Clients to borrow a lump sum for a particular purpose.

	31 March 2023				
	Stage 1	**Stage 2**	**Stage 3**	**Specific**	**Total**
Provision for Credit Impairment					
Residential	1,935,041	5,249	14,772	-	1,955,062
Commercial	986,138	13,826	4,299	55,000	1,059,263
Consumer	2,315,889	7,757	76,413	47,444	2,447,503
Personal	96,749	-	-	-	96,749
	5,333,817	**26,832**	**95,484**	**102,444**	**5,558,577**
Opening Balance	**3,303,776**	**70,559**	**71,426**	**135,153**	**3,580,914**
Transfer Between Stages	35,978	(20,939)	11,748	(26,787)	-
Movement in Provisions	2,086,361	(22,788)	12,310	(5,922)	2,069,961
Amounts Written Off	(92,298)	-	-	-	(92,298)
Closing Balance	**5,333,817**	**26,832**	**95,484**	**102,444**	**5,558,577**

	Residential	**Commercial**	**Consumer**	**Personal**	**Total**
Provision for Credit Impairment Movements					
Amounts Written Off	-	21,481	70,817	-	92,298
Collective Provision	1,106,608	268,953	1,180,584	33,407	2,589,552
Specific Provision	(67,612)	55,000	(20,097)	-	(32,709)
Provision for Credit Impairment to Income Statement	**1,038,996**	**345,434**	**1,231,304**	**33,407**	**2,649,141**

Notes to the financial statements

For the year ended 31 March 2023

Loans and Receivables	Note	Stage 1	Stage 2	Stage 3	Specific	Total
Residential		418,699,837	1,097,977	2,505,634	-	422,303,448
Commercial		390,009,890	2,917,902	344,419	243,038	393,515,249
Consumer		67,523,604	150,253	7,134,333	102,446	74,910,636
Personal		785,729	-	-	-	785,729
Subtotal		**877,019,060**	**4,166,132**	**9,984,386**	**345,484**	**891,515,062**
Unearned Income (Consumer)						3,062,158
Gross Loans and Receivables		**877,019,060**	**4,166,132**	**9,984,386**	**345,484**	**894,577,220**
Allowance of Expected Credit Loss		**(5,333,817)**	**(26,832)**	**(95,484)**	**(102,444)**	**(5,558,577)**
Net Loans and Receivables		**871,685,243**	**4,139,300**	**9,888,902**	**243,040**	**889,018,643**

Expected Credit Loss Allocated to Unrecognised Loan Commitments	Note	Residential	Commercial	Consumer	Personal	Total
Unrecognised Loan Commitment		32,876,130	100,834,591	882,420	16,548	134,609,689
Expected Credit Loss Provision	11	**197,175**	**603,639**	**5,293**	**99**	**806,206**
Movement from Prior Year		**119,858**	**453,932**	**5,292**	**99**	**579,181**

	Residential	Commercial	Consumer	Personal	Total
Impact from Changes in Loan Carrying Balances and Committed Loans					
Increase in Provision from Loan Originations	373,805	345,900	1,026,105	41,104	1,786,914
Decrease in Provision from Loan Derecognitions	(137,638)	(233,144)	(320,079)	(23,724)	(714,585)
Change in Provision from Continuing Loans	223,650	211,197	454,461	16,026	905,334
Net Movement in Collective Provision	**459,817**	**323,953**	**1,160,487**	**33,406**	**1,977,663**

Notes to the financial statements

For the year ended 31 March 2023

	31 March 2022				
	Stage 1	Stage 2	Stage 3	Specific	Total
Provision for Credit Impairment					
Residential	1,422,100	4,088	1,446	67,612	1,495,246
Commercial	720,286	12,886	2,138	-	735,310
Consumer	1,098,452	53,181	67,842	67,541	1,287,016
Personal	62,938	404	-	-	63,342
	3,303,776	**70,559**	**71,426**	**135,153**	**3,580,914**
Opening Balance	**4,619,121**	**177,006**	**203,065**	**167,243**	**5,166,435**
Transfer Between Stages	(59,591)	5,666	9,295	44,630	-
Movement in Provisions	(1,240,149)	(97,448)	(130,398)	(65,204)	(1,533,199)
Amounts Written Off	(15,605)	(14,665)	(10,536)	(11,516)	(52,322)
Closing Balance	**3,303,776**	**70,559**	**71,426**	**135,153**	**3,580,914**

	Residential	Commercial	Consumer	Personal	Total
Provision for Credit Impairment Movements					
Amounts Written Off	-	-	51,681	641	52,322
Collective Provision	218,284	(961,611)	(561,917)	(21,230)	(1,326,474)
Specific Provision	67,612	(63,479)	(36,222)	-	(32,089)
Provision for Credit Impairment to Income Statement	**285,896**	**(1,025,090)**	**(546,458)**	**(20,589)**	**(1,306,241)**

	Stage 1	Stage 2	Stage 3	Specific	Total
Loans and Receivables					
Residential	429,932,963	1,156,213	182,756	67,612	431,339,544
Commercial	341,807,591	3,583,666	410,125	-	345,801,382
Consumer	78,738,473	2,505,701	1,197,476	67,541	82,509,191
Personal	1,258,765	897	-	-	1,259,662
Subtotal	**851,737,792**	**7,246,477**	**1,790,357**	**135,153**	**860,909,779**
Unearned Income (Consumer)					4,996,988
Gross Loans and Receivables	**851,737,792**	**7,246,477**	**1,790,357**	**135,153**	**865,906,767**
Allowance of Expected Credit Loss	**(3,303,776)**	**(70,559)**	**(71,426)**	**(135,153)**	**(3,580,914)**
Net Loans and Receivables	**848,434,016**	**7,175,918**	**1,718,931**	**-**	**862,325,853**

Notes to the financial statements

For the year ended 31 March 2023

Expected Credit Loss Allocated to Unrecognised Loan Commitments	Residential	Commercial	Consumer	Personal	Total
Unrecognised Loan Commitment[1]	39,945,593	81,755,560	-	-	121,701,153
Expected Credit Loss Provision	**77,318**	**149,707**	**-**	**-**	**227,025**
Movement from Prior Year	**(127,810)**	**149,707**	**-**	**-**	**21,897**

	Residential	Commercial	Consumer	Personal	Total
Impact from Changes in Loan Carrying Balances and Committed Loans					
Increase in Provision from Loan Originations	301,198	261,593	404,002	32,915	999,708
Decrease in Provision from Loan Derecognitions	(296,174)	(318,826)	(524,074)	(31,880)	(1,170,954)
Change in Provision from Continuing Loans	303,933	(1,012,816)	(478,068)	(22,197)	(1,209,148)
Net Movement in Collective Provision	**308,957**	**(1,070,049)**	**(598,140)**	**(21,162)**	**(1,380,394)**

Expected Credit Loss Assumptions

The Expected Credit Loss (ECL) charge and ECL provisions as at 31 March 2023 are based on management's judgement using a variety of internal and external information. The judgements and associated assumptions are made by considering historical loss experience and expectations of future events based on reasonable and supportable forecasts of future economic conditions. The global economy continues to face challenges caused by the COVID -19 pandemic, ongoing supply chain issues and labour shortages which are creating additional costs for businesses and contributing to higher inflation. The unpredictable nature of these future economic pressures make NBS' ECL estimates inherently uncertain, accordingly, actual results may differ from these estimates.

Judgement/Assumption	Changes and considerations during the year ended 31 March 2023
Determining when a Significant Increase in Credit Risk (SICR) has Occurred	Various initiatives, such as restructured lending facilities and payment deferrals are not automatically considered to indicate SICR but are used as necessary within the broader set of indicators used to assess and grade client facilities.
Measuring both 12 month and Lifetime Credit Losses	The PD, EAD and LGD models are subject to NBS' model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 31 March 2023. There were no changes to behavioural lifetime estimates during the year ended 31 March 2023.
Base Case Economic Forecast	NBS derives a forward looking "base case" economic scenario which reflects their view of the most likely future macro economic conditions. The expected outcomes of key economic drivers for the base case scenario as at 31 March 2023 and those previously used as at 31 March 2022 are described below under the heading "Forecast Base Case Assumptions".
Probability Weighting of each Scenario (Base Case, Upside and Downside scenarios)	The key consideration for probability weightings in the current year is unemployment, inflation, property values and GDP. In addition to the base case forecast, weighting has been applied to the downside and upside scenarios to determine the appropriate provision. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. NBS considers these weightings in each scenario to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within NBS' credit portfolios in determining them.

[1] $65,736,438 was disclosed as unrecognised loan commitments in the prior year. This balance has been adjusted to include the undrawn balance of revolving credit loans.

Notes to the financial statements

For the year ended 31 March 2023

Forecast Base Case Assumptions

The economic drivers of the base case economic forecasts at 31 March 2023 and those that were used at 31 March 2022 are set out below:

	Base case Economic Forecast as at 31 March 2023	**Base Case Economic Forecast as at 31 March 2022**
Unemployment rate	It is expected to average 5.3%.	It is expected to average 3.5%.
Gross Domestic Product in Certain Industries	Year on year economic output is expected to increase both nationally and in the regions / industry in which NBS clients operate.	Year on year economic output is expected to increase both nationally and in the regions / industry in which NBS clients operate.
Residential property values	House prices are expected to drop by a moderate percentage in the regions in which NBS operates.	House prices are expected to drop by a small percentage in the regions in which NBS operates.

ECL - Sensitivity Analysis

The uncertainty surrounding house prices, interest rates and inflation introduce significant estimation uncertainty in relation to the measurement of NBS' allowance for expected credit losses. Economic indicators are inherently uncertain and could result in significant adjustments to the allowance within the current and next financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by NBS should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it by showing the results of what the total ECL provision would be if a 100% weighting was applied to each scenario and how much this would change the current surplus by.

	Total ECL Provision	**Impact on Income Statement Surplus**
Upside Scenario	831,669	4,726,908 Increase
Base Scenario	3,534,092	2,024,485 Increase
Downside Scenario	8,175,395	(2,616,818) Decrease

Input Used Within the Different Scenarios

	Upside Scenario	**Base Case Scenario**	**Downside Scenario**
Unemployment Rate	3.35%	5.30%	7.25%
Residential Property Values	1.79%	-6.20%	-14.19%
GDP	7.60%	4.50%	1.40%
Inflation	3.00%	3.60%	5.51%
Wage Growth	5.50%	4.90%	3.35%

Notes to the financial statements

For the year ended 31 March 2023

7. Asset Quality

	31 March 2023				
	Residential	Commercial	Consumer	Personal	Total
Asset Quality					
Past Due but Not Impaired	1,457,317	-	1,648,460	7,461	3,113,238
Impaired	2,505,633	587,456	7,236,779	-	10,329,868
Neither Past Due Nor Impaired	418,340,498	392,927,793	69,087,555	778,268	881,134,114
Total	**422,303,448**	**393,515,249**	**77,972,794**	**785,729**	**894,577,220**

At 31 March 2023, there was $85,813 of trade receivables that was neither past due nor impaired. Interest income on impaired financial assets was $726,598 (31 March 2022: $149,512).

	Residential	Commercial	Consumer	Personal	Total
Ageing of Past Due Assets					
Past due 1-29 days	781,393	-	2,308,828	7,461	3,097,682
Past due 30-59 days	2,480,399	-	999,238	-	3,479,637
Past due 60-89 days	265,509	142,395	2,470,212	-	2,878,116
Past due 90 days+	254,275	171,820	2,482,849	-	2,908,944
Carrying Amounts	**3,781,576**	**314,215**	**8,261,127**	**7,461**	**12,364,379**

	Residential	Commercial	Consumer	Personal	Total
Movement in Impaired Assets					
Opening Balance	67,612	-	67,541	-	135,153
Assets Classified as Past Due/Impaired	2,505,633	587,456	7,236,779	-	10,329,868
Client Repayments and Recoveries	(67,612)	-	(26,828)	-	(94,440)
Loan Balance Written Off	-	-	-	-	-
Assets no Longer Meeting Definition	-		(40,713)	-	(40,713)
Closing Balance	**2,505,633**	**587,456**	**7,236,779**	**-**	**10,329,868**

	31 March 2022				
	Residential	Commercial	Consumer	Personal	Total
Asset Quality					
Past Due but Not Impaired	1,682,183	580,821	5,267,769	27,120	7,557,893
Impaired	67,612	-	67,541	-	135,153
Neither Past Due Nor Impaired	429,589,772	345,220,561	82,170,846	1,232,542	858,213,721
Total	**431,339,567**	**345,801,382**	**87,506,156**	**1,259,662**	**865,906,767**

	Residential	Commercial	Consumer	Personal	Total
Ageing of Past Due Assets					
Past due 1-29 days	751,647	-	1,493,036	26,223	2,270,906
Past due 30-59 days	747,780	170,696	1,175,392	897	2,094,765
Past due 60-89 days	-	-	1,355,314	-	1,355,314
Past due 90 days+	182,756	410,125	1,244,027	-	1,836,908
Carrying Amounts	**1,682,183**	**580,821**	**5,267,769**	**27,120**	**7,557,893**

	Residential	Commercial	Consumer	Personal	Total
Movement in Impaired Assets					
Opening Balance	-	76,289	103,764	-	180,053
Assets Classified as Past Due/Impaired	67,612	-	77,683	-	145,295
Client Repayments and Recoveries	-	(76,289)	(58,294)	-	(134,583)
Loan Balance Written Off	-	-	(11,516)	-	(11,516)
Assets no Longer Meeting Definition	-	-	(44,096)	-	(44,096)
Closing Balance	**67,612**	**-**	**67,541**	**-**	**135,153**

Notes to the financial statements

For the year ended 31 March 2023

8. Property, Plant & Equipment

Cost or Fair Value

	Freehold Land and Buildings	Computer equipment and hardware	Other Assets	Total
Balance at 1 April 2021	2,546,291	695,277	1,839,820	5,081,388
Revaluation	(865,833)	-	-	(865,833)
Additions	1,849,351	187,170	773,675	2,810,196
Disposals	(80,435)	-	(160,869)	(241,304)
Balance at 31 March 2022	**3,449,374**	**882,447**	**2,452,626**	**6,784,447**
Additions	23,740	232,198	441,049	696,987
Disposals	-	-	(107,022)	(107,022)
Balance at 31 March 2023	**3,473,114**	**1,114,645**	**2,786,653**	**7,374,412**

Accumulated Depreciation and impairment

	Freehold Land and Buildings	Computer equipment and hardware	Other Assets	Total
Balance at 1 April 2021	(467,410)	(545,696)	(1,056,065)	(2,069,171)
Depreciation for the year	(19,374)	(166,747)	(226,915)	(413,036)
Accumulated Depreciation on Disposed Assets	44,727	-	101,306	146,033
Revaluation	422,683	-	-	422,683
Balance at 31 March 2022	**(19,374)**	**(712,443)**	**(1,181,674)**	**(1,913,491)**
Depreciation for the year	(38,732)	(123,622)	(285,494)	(447,848)
Accumulated Depreciation on Disposed Assets	-	-	85,256	85,256
Balance at 31 March 2023	**(58,106)**	**(836,065)**	**(1,381,912)**	**(2,276,083)**

Notes to the financial statements

For the year ended 31 March 2023

Net Book Value

	Freehold Land and Buildings	Computer equipment and hardware	Other Assets	Total
Balance at 1 April 2021	2,078,881	149,581	783,755	3,012,217
Balance at 31 March 2022	3,430,000	170,004	1,270,952	4,870,956
Balance at 31 March 2023	**3,415,008**	**278,580**	**1,404,741**	**5,098,329**

NBS' freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation expense is included in the line item 'amortisation and depreciation expense' in the Income Statement.

The freehold land and buildings of NBS were valued by Murray Lauchland of Duke & Cook, independent registered valuers not related to NBS, as at 31 March 2022. They have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant location. These are valued on the basis of market value for existing use. A rental capitalisation valuation methodology has been used in determining this value. This is a level 3 measurement under the fair value hierarchy. The rental capitalisation rate adopted for the valuation of the property was 4.75%. A significant decrease/increase in the rental capitalisation rate would result in an increase/decrease to the fair value of the land and buildings.

Had NBS' freehold land and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	31/03/2023	31/03/2022
Freehold Land	16,550	16,550
Buildings	2,235,936	2,239,971
	2,252,486	**2,256,521**

Notes to the financial statements

For the year ended 31 March 2023

9. Leases (NBS as a Lessee)

	31/03/2023	31/03/2022
Right of Use Assets		
Cost		
Balance at Beginning of the Year	1,756,795	1,607,917
Additions from new leases	418,645	148,878
Additions from remeasurement of leases	998,106	-
Expired leases	(347,964)	-
Balance at End of the Year	**2,825,582**	**1,756,795**
Accumulated Depreciation		
Balance at Beginning of the Year	(1,012,100)	(673,867)
Charge for the Year	(242,005)	(338,233)
Expired leases	347,964	-
Balance at End of the Year	**(906,141)**	**(1,012,100)**
Net book value as at the end of the Year	**1,919,441**	**744,695**

NBS leases 7 properties under the criteria set in NZ IFRS 16. The average remaining lease term is 6 years. (31 March 2022: 3 years).

Amounts recognised in the Income Statement

	31/03/2023	31/03/2022
Depreciation Expense on Right of Use Asset	242,005	338,233
Interest Expense on Lease Liabilities	225,036	51,899
Expense Relating to Short-term Leases	11,982	38,693
	479,023	**428,825**

Lease Liabilities		
Maturity Analysis		
Year 1	314,539	276,222
Year 2	324,656	161,661
Year 3	349,358	85,092
Year 4	289,074	85,667
Year 5	154,350	90,375
Onwards	623,885	92,940
	2,055,862	**791,957**

NBS does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the NBS treasury function. All lease obligations are denominated in NZD.

Notes to the financial statements

For the year ended 31 March 2023

10. Intangible Assets

Software	$
Cost	
Balance at 1 April 2021	946,450
Additions	256,144
Balance at 31 March 2022	**1,202,594**
Additions	3,414
Balance at 31 March 2023	**1,206,008**

Accumulated Amortisation	$
Balance at 1 April 2021	(299,402)
Amortisation for the Year	(411,655)
Balance at 31 March 2022	**(711,057)**
Amortisation for the Year	(374,343)
Balance at 31 March 2023	**(1,085,400)**

Net Book Value of Software	$
At 1 April 2021	**647,048**
At 31 March 2022	**491,537**
At 31 March 2023	**120,608**

Amortisation expense is included in the line item 'amortisation and depreciation' expense in the Income Statement. No impairment losses have been recognised against the gross carrying amount of intangible assets during the year ended 31 March 2023 (31 March 2022: $Nil)

Notes to the financial statements

For the year ended 31 March 2023

11. Trade and Other Payables

	Note	31/03/2023	31/03/2022
Trade payables and accruals		807,465	739,012
Payroll tax and other statutory liabilities		407,655	178,002
Provision for credit impairment - unrecognised loan commitments	6	806,206	227,025
		2,021,326	**1,144,039**

Trade payables are unsecured and are usually paid within 30 days of recognition.

12. Borrowings

	31/03/2023	31/03/2022
Borrowings		
Call Borrowings - Depositors	344,187,332	425,586,308
Term Borrowings - Depositors	672,382,546	555,709,793
Total Borrowings	**1,016,569,878**	**981,296,101**

	31/03/2023	Weighted Average Interest Rate %	31/03/2022	Weighted Average Interest Rate %
Maturity Analysis				
Borrowings at Call	344,187,332	0.87	425,586,308	0.29
Between 0 and 1 year	636,361,631	4.26	505,287,826	1.69
Between 1 and 2 years	26,385,982	4.05	42,269,726	1.46
Between 2 and 5 years	9,634,933	4.25	8,152,241	2.36
Total Borrowings	**1,016,569,878**	**3.11**	**981,296,101**	**1.08**

All Borrowings are unsecured.

13. Share Capital

	31/03/2023 Number of shares	31/03/2023 Amount	31/03/2022 Number of shares	31/03/2022 Amount
As at 31 March beginning of the year	50,268,500	50,268,500	50,638,500	50,638,500
Issued during the year	5,250,000	5,250,000	700,000	700,000
Redeemed during the year	(5,397,500)	(5,397,500)	(1,070,000)	(1,070,000)
As at end of the year	**50,121,000**	**50,121,000**	**50,268,500**	**50,268,500**

The subscription price for the Perpetual Preference Shares ('PPS') is $1 each. Shares were redeemed for $1 each. Each Perpetual Preference Share ('PPS') attracts a fully imputed dividend. Dividends, paid quarterly, may only be paid from the surplus of NBS. The dividend shall be paid at a percentage set just before the beginning of each quarter. Dividends were paid at 4.5% for quarter one, 5.25% for quarter two, 6.25% for quarter three, and 7.25% for quarter four (31 March 2022: 4% for quarters one through three and 4.5% for quarter four). NBS can cancel the payment of a dividend by giving the holder a Dividend Cancellation Notice. NBS paid dividends of $2,100,888 for the year ending 31 March 2023 (31 March 2022: $1,513,272). The PPS are voting (one right to vote per member). Upon a winding up, the PPS rank equally among themselves but behind the claims of all secured and unsecured creditors of NBS.

Notes to the financial statements

For the year ended 31 March 2023

14. Commitments And Contingent Liabilities

NBS has a commitment for loans approved but not yet paid at 31 March 2023 of $134,609,689. (31 March 2022 : $121,701,153-restated. This balance has been adjusted to include the undrawn balance of revolving credit loans.)

Sponsorship commitments beyond 31 March 2023 total $789,304. (31 March 2022: $543,050).

NBS has a commitment for software licensing and associated costs of $4,104,841. (31 March 2022: $nil)

NBS has issued bond guarantees of $2,816,685 (31 March 2022:$4,385,448).

Contingent liabilities

In response to industry wide compliance issues with the variation requirements under the Credit Contracts and Consumer Finance Act 2003, NBS is currently undertaking a review of its own variation disclosure compliance. NBS believes that there may have been non-compliance with variation disclosure requirements and has advised its regulators of this. However, it is in the early stages of this review and has not yet been able to calculate the potential financial impact of any noncompliance. A provision may be recognised when NBS has conducted an assessment where that assessment determines the likelihood of loss as probable and where its potential loss can be reliably estimated.

15. Asset and Liability Categorisation

	31/03/2023	31/03/2022
Financial Assets		
Financial Assets at Amortised Cost (including Cash and Cash Equivalents)	1,121,620,548	1,080,102,490
Financial Liabilities		
Financial Liabilities Held at Amortised Cost	1,020,647,066	983,232,097

All Financial Assets and Financial Liabilities of NBS are held at Amortised Cost.

16. Fair Value of Financial Assets and liabilities

Disclosed below is the estimated fair value of NBS' financial instruments disclosed in terms of NZ IFRS 7: Financial Instruments Disclosures and NZ IFRS 13: Fair Value Measurements.

Methodologies

NBS uses valuation techniques within the following hierarchy to determine the fair value of the financial instruments:

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: Fair values are determined using other techniques where all inputs, other than those included in Level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Fair values are determined using techniques that use inputs which have significant effect on the recorded fair value but are not based on observable market data.

There have been no transfers between levels during the year.

The following methods have been used:

Cash and Cash Equivalents, Term Deposits, Trade Receivables and Trade and Other Payables

The fair value of Cash and Cash Equivalents, Trade Receivables and Trade and Other Payables approximate the carrying value due to their short term nature.

Term Deposits

The fair values of Term Deposits are not significantly different from their carrying amounts.

Mortgages, Personal Loans, Consumer Lending

For variable rate advances the carrying amount is a reasonable estimate of fair value. For fixed rate advances fair values have been estimated using the discounted cash flow approach by reference to current rates for the term at original fixing.

Lease Liability

Fair values have been estimated using the discounted cash flow approach.

Borrowings

The fair value of demand deposits is the amount payable on demand at reporting date. For other liabilities with maturities of less than three months the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of three months or longer, fair values have been based on quoted market prices, where such price exists. Otherwise fair values have been estimated using the discounted cash flow approach by reference to interest rates currently offered for similar liabilities of similar maturities. Borrowings are classified as Level 2 within the fair value hierarchy.

Notes to the financial statements

For the year ended 31 March 2023

Financial Assets	31/03/2023 Carrying Amount	31/03/2023 Fair Value	31/03/2022 Carrying Amount	31/03/2022 Fair Value
Cash and Cash Equivalents	160,805,654	160,805,654	155,357,896	155,357,896
Term Deposits	71,711,738	71,711,738	62,387,588	62,387,588
Trade Receivables	84,513	84,513	31,151	31,151
Mortgages	814,687,789	807,899,977	777,008,925	770,112,651
Personal Loans	785,729	771,145	1,259,662	1,239,149
Consumer Lending	79,103,702	76,028,837	87,638,180	88,941,604
Less Provision for Credit Impairment	(5,558,577)	(5,558,577)	(3,580,914)	(3,580,914)
Total Financial Assets	**1,121,620,548**	**1,111,743,287**	**1,080,102,488**	**1,074,489,125**
Financial Liabilities				
Trade and Other Payables	2,021,326	2,021,326	1,144,039	1,144,039
Lease Liability	2,055,862	2,055,862	791,957	791,957
Borrowings	1,016,569,878	1,024,808,329	981,296,101	982,688,074
Total Financial Liabilities	**1,020,647,066**	**1,028,885,517**	**983,232,097**	**984,624,070**

17. Liquidity Risk

Liquidity risk is the risk that NBS will encounter difficulty in meeting commitments associated with its financial liabilities (e.g. call borrowings, term borrowings, and future commitments including loan draw-downs and guarantees). NBS manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitment based on historical and forecasted cash flow requirements.

NBS monitors its liquidity position on a regular basis, looking out to 90 days to assess potential funding requirements. This is managed in light of historical reinvestment rates in excess of 70% and through significant cash and term deposit reserves.

To meet both expected and unexpected fluctuations in operating cash flows NBS maintains a stock of liquid investments which it considers from analysis of historical cash flows, forecast cash flows and the current composition of the Statement of Financial Position to be adequate.

Cash demands are usually met by realising liquid investments on maturity and raising new deposits.

Asset liquidity includes Cash and Cash Equivalents, Term Deposits, Trade Receivables and Loans and Receivables.

The primary funding source for NBS comes from its Clients who primarily reside in the Nelson, Tasman, West Coast, Golden Bay, and Mid Canterbury Regions.

The following tables are prepared in accordance with NZ IFRS 7 and analyse NBS' assets and liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date. The amounts shown in the tables are based on the contractual undiscounted cash flows and therefore will not agree to the carrying values on the Statement of Financial Position. The tables include estimates made by management as to the average interest rate applicable for each asset or liability class during the contractual term.

The majority of the longer term Loans and Receivables are housing loans, which are likely to be repaid earlier than their contractual terms, based on historical analysis. Loans and Receivables with maturity dates within 24 months are expected to run to term, but it is expected that a proportion of the Advances in the over 24 month category could repay earlier due to changes in the borrowers personal circumstances, but on average would still remain in the over 24 month category.

Notes to the financial statements

For the year ended 31 March 2023

Monetary Assets Receivable Matched Against Liabilities Payable as at 31 March 2023

	On call within 3 months	Within 6 months	6 Months to 1 Year	1 to 2 Years	2 to 5 Years	Greater than 5 years	No Maturity	Total
Monetary Assets								
Cash and Cash Equivalents	160,805,654	-	-	-	-	-	-	**160,805,654**
Term Deposits	28,959,398	32,956,854	9,795,486	-	-	-	-	**71,711,738**
Trade Receivables	84,513	-	-	-	-	-	-	**84,513**
Mortgages and Interest	41,221,885	32,521,356	57,679,379	66,451,255	159,211,702	716,767,963	72,226,493	**1,146,080,033**
Personal Loans and Interest	141,657	127,045	205,577	252,001	163,609	-	-	**889,889**
Consumer Lending and Interest	12,500,922	9,508,125	16,207,762	21,283,409	26,493,615	82,714	-	**86,076,547**
Provision for Credit Impairment		-	-	-	-	-	(5,558,577)	**(5,558,577)**
Total Monetary Assets	**243,714,029**	**75,113,380**	**83,888,204**	**87,986,665**	**185,868,926**	**716,850,677**	**66,667,916**	**1,460,089,797**
Liabilities								
Employee Entitlements	744,275	-	-	-	-	-	-	**744,275**
Trade and Other Payables	2,021,326		-	-	-	-	-	**2,021,326**
Current Tax Liabilities	785,342		-	-	-	-	-	**785,342**
Borrowings and Interest	606,843,346	127,897,738	257,848,153	27,599,649	10,819,337	-	-	**1,031,008,223**
Total Monetary Liabilities	**610,394,289**	**127,897,738**	**257,848,153**	**27,599,649**	**10,819,337**	**-**	**-**	**1,034,559,166**
Net Monetary Assets/(Liabilities)	**(366,680,260)**	**(52,784,358)**	**(173,959,949)**	**60,387,016**	**175,049,589**	**716,850,677**	**66,667,916**	**425,530,631**
Unrecognised Loan Commitments	(134,609,689)	-	-	-	-	-		**(134,609,689)**
Net Liquidity Gap	**(501,289,949)**	**(52,784,358)**	**(173,959,949)**	**60,387,016**	**175,049,589**	**716,850,677**	**66,667,916**	**290,920,942**

Monetary assets receivable matched against liabilities payable as at 31 March 2022

	On call within 3 months	Within 6 months	6 Months to 1 Year	1 to 2 Years	2 to 5 Years	Greater than 5 years	No Maturity	Total
Monetary Assets								
Cash and Cash Equivalents	25,132,443	130,225,453	-	-	-	-	-	**155,357,896**
Term Deposits	-	814,759	39,479,582	22,093,247	-	-	-	**62,387,588**
Trade Receivables	31,151	-	-	-	-	-	-	**31,151**
Mortgages and Interest	48,963,928	31,675,074	51,180,510	79,547,266	161,217,553	526,770,304	96,212,705	**995,567,340**
Personal Loans and Interest	-	40,195	144,735	324,161	2,010,234	4,010	-	**2,523,335**
Consumer Lending and Interest	10,360,746	12,792,162	15,085,498	26,449,804	30,788,886	99,555	-	**95,576,651**
Provision for Credit Impairment	-	-	-	-	-	-	(3,580,914)	**(3,580,914)**
Total Monetary Assets	**84,488,268**	**175,547,643**	**105,890,325**	**128,414,478**	**194,016,673**	**526,873,869**	**92,631,791**	**1,307,863,047**
Liabilities								
Employee Entitlements	485,654		-	-	-	-	-	**485,654**
Trade and Other Payables	1,144,039		-	-	-	-	-	**1,144,039**
Current Tax Liabilities	1,729,338		-	-	-	-	-	**1,729,338**
Borrowings and Interest	636,873,282	112,104,708	184,468,304	43,059,867	8,708,282	-	-	**985,214,443**
Total Monetary Liabilities	**640,232,313**	**112,104,708**	**184,468,304**	**43,059,867**	**8,708,282**	**-**	**-**	**988,573,474**
Net Monetary Assets/(Liabilities)	**(555,744,045)**	**63,442,935**	**(78,577,979)**	**85,354,611**	**185,308,392**	**526,873,869**	**92,631,791**	**319,289,573**
Unrecognised Loan Commitments[1]	(121,701,153)	-	-	-	-	-	-	**(121,701,153)**
Net Liquidity Gap	**(677,445,198)**	**63,442,935**	**(78,577,979)**	**85,354,611**	**185,308,392**	**526,873,869**	**92,631,791**	**197,588,420**

[1] $65,736,438 was disclosed as unrecognised loan commitments in the prior year. This balance has been adjusted to include the undrawn balance of revolving credit loans.

Although NBS has the right to call up Loans and Receivables in certain circumstances (e.g. an event of default or where it becomes unlawful or significantly more expensive for NBS to extend the loan) prior to the end of the term, no such demands have been made. No estimate of the amount likely to be received from an early repayment of advances has been included in these financial statements. Where financial assets/liabilities are called the ability to liquidate a financial asset is constrained by the timeliness to realise the asset.

Notes to the financial statements

For the year ended 31 March 2023

18. Credit Risk

The nature of NBS' activities as a financial intermediary necessitates NBS dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that NBS could incur as a result of the counterparty to a contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements and any potential recoveries. The maximum amount of credit exposure is limited to the carrying amount of the financial assets disclosed in the Statement of Financial Position plus loan commitments. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations or other policies adopted by governments or regulatory authorities. NBS is a provider of loans that could be impacted in future by climate change, for example if sea level rose and certain properties were unable to get insurance or were impacted by climate change. As at year end, there is considered to be no material risk of loss due to climate related risk on our client exposures. NBS believes that climate change represents an implicit element in the application of methodologies and models used to perform estimates in the valuation and/or measurement of certain accounting items including the expected credit loss.

NBS' activities are conducted within the bounds of prudent and conservative banking practice. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit management involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the credit risk management function which is responsible for the collections and recovery process.

Financial instruments which potentially subject NBS to credit risk are mortgages, personal loans, consumer lending, cash and cash equivalents, term deposits and trade receivables. The majority of NBS' Loans and Receivables are secured by first mortgage over residential, commercial and agricultural properties. As a guideline NBS will lend up to 80% of a property's valuation by a registered valuer on a residential first mortgage and up to 60% on both commercial and agricultural first mortgages. The credit risk on Loans and Receivables is limited as security is held. Personal advances are generally secured by way of guarantee. The majority Consumer lending advances are secured by a registered charge over the asset.

In the normal course of business, NBS incurs credit risk from debtors. NBS has a credit policy, which is used to manage its exposure to unsecured advances. There are no significant concentrations of credit risk in any of the above areas. The majority of NBS' Loans and Receivables are residential mortgages. A significant portion of all Loans and Receivables are in the Nelson and Tasman regions, with more in West Coast, Golden Bay, and Mid Canterbury Regions. The service and product provision for each branch is similar, the class of client, methods of distribution and regulatory environment is consistent across all the branches.

Concentrations of Credit Risk to Individual Counterparties and Bank Counterparties

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region- therefore, they may be similarly affected by changes in economic or other conditions. NBS monitors its credit portfolio to manage concentration risk. NBS also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

The table below shows the numbers of bank counterparties or Groups of closely related counterparties of which a bank is a parent and individual counterparties (other than banks or groups of closely related counterparties of which a bank is a parent) where NBS has large credit exposures. These have been disclosed in bands of 10% of NBS' equity at balance date.

	31/03/2023		31/03/2022	
% of Equity	Bank	Other	Bank	Other
10-19	-	1	1	1
20-29	-	1	1	1
30-39	-	-	-	-
40-49	-	-	-	-
50-59	1	-	-	-
60-69	1	-	1	-
70-79	-	-	1	-
80-89	1	-	-	-
90+	-	-	-	-

Credit Risk Profile by Sector

The table below shows the level of lending by sector. NBS has 5 major sectors of lending: residential, commercial, agriculture, personal lending and consumer finance.

	31/03/2023	31/03/2022
Residential	559,329,586	521,843,361
Commercial	190,349,923	185,928,263
Agriculture	68,022,174	66,024,928
Personal Lending	6,386,583	2,392,166
Consumer Finance	70,488,954	85,910,110
	894,577,220	**862,098,828**

Information about Major Clients
At 31 March 2023, there was no one client that individually comprised 10 percent or more of the total revenue. (31 March 2022: $nil)

19. Market Risk

Market risk is the risk that changes in market prices, such as interest rate and credit spreads that could affect NBS' income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

NBS' exposure to market risk is managed operationally by Treasury. Market risk is managed within a framework of policy limits, within the Treasury Policy. An external treasury advisor independently reports on this to the Board.

Interest rate risk is the risk of loss arising from adverse changes in interest rates. NBS is exposed to interest rate risk in respect of borrowing from and lending to customers and investing in physical money market instruments. Changes in interest rates can impact NBS' financial results by affecting the spread earned on interest earning assets and interest paying liabilities and impacting on the market value of other financial instruments held.

NBS' normal lending terms allow it to reset variable interest rates at thirty days notice.

Interest rates on term borrowings are fixed until their respective maturity dates. Approximately 96% of the borrowings can be repriced or mature within twelve months (31 March 2022: 95%).

The following table shows the next interest maturity date for financial assets and liabilities excluding interest with amounts without interest resets during the period of the loan being shown as "Non interest sensitive assets" :

Notes to the financial statements

For the year ended 31 March 2023

Interest Rate Repricing Schedule as at 31 March 2023

	Effective Interest Rate %	On Call Within 3 months	Within 6 Months	6 Months to 1 Year	1 to 2 Years	Greater than 2 years	Non interest sensitive assets	Total Carrying Amount
Monetary Assets								
Cash and Cash Equivalents	4.07%	156,402,222	-	-	-	-	4,403,432	**160,805,654**
Term Deposits	2.91%	28,959,398	32,956,854	9,795,486	-	-	-	**71,711,738**
Trade Receivables		-	-	-	-	-	84,513	**84,513**
Personal Loans	10.94%	-	-	-	-	-	785,729	**785,729**
Consumer Lending	10.14%	2,439,580	-	-	-	-	76,664,122	**79,103,702**
Mortgage Advances	5.41%	250,806,013	107,322,949	243,574,141	194,763,342	4,114,326	14,107,018	**814,687,789**
Provision for Credit Impairment		-	-	-	-	-	(5,558,577)	**(5,558,577)**
Total Monetary Assets		**438,607,213**	**140,279,803**	**253,369,627**	**194,763,342**	**4,114,326**	**90,486,237**	**1,121,620,548**
Liabilities								
Borrowings	3.11%	602,987,173	128,734,709	248,827,081	26,385,982	9,634,933	-	**1,016,569,878**
Trade and Other Payables			-	-	-	-	2,021,326	**2,021,326**
Total Monetary Liabilities		**602,987,173**	**128,734,709**	**248,827,081**	**26,385,982**	**9,634,933**	**2,021,326**	**1,018,591,204**
Net Monetary Assets/(Liabilities)		**(164,379,960)**	**11,545,094**	**4,542,546**	**168,377,360**	**(5,520,607)**	**88,464,911**	**103,029,344**
Unrecognised Loan Commitments	5.84%	(134,609,689)	-	-	-	-		**(134,609,689)**
Interest Sensitivity Gap		**(298,989,649)**	**11,545,094**	**4,542,546**	**168,377,360**	**(5,520,607)**	**88,464,911**	**(31,580,345)**

Interest Rate Repricing Schedule as at 31 March 2022

	Effective Interest Rate %	On Call Within 3 months	Within 6 Months	6 Months to 1 Year	1 to 2 Years	Greater than 2 years	Non interest sensitive assets	Total Carrying Amount
Monetary Assets								
Cash and Cash Equivalents	1.33%	16,048,941	130,225,453	-	-	-	9,083,502	**155,357,896**
Term Deposits	2.12%	-	-	40,294,341	22,093,247	-	-	**62,387,588**
Trade Receivables		-	-	-	-	-	31,151	**31,151**
Personal Loans	10.80%	-	-	-	4,606	29,581	1,225,475	**1,259,662**
Consumer Lending	9.52%	2,234,100	-	-	-	-	85,404,080	**87,638,180**
Mortgage Advances	4.59%	183,621,135	136,564,320	291,800,845	153,918,255	11,104,370	-	**777,008,925**
Provision for Credit Impairment		-	-	-	-	-	(3,580,914)	**(3,580,914)**
Total Monetary Assets		**201,914,176**	**266,789,773**	**332,095,186**	**176,016,107**	**11,133,951**	**92,163,294**	**1,080,102,488**
Liabilities								
Borrowings	1.08%	425,586,308	322,617,105	182,670,721	42,269,726	8,152,241	-	**981,296,101**
Trade and Other Payables		-	-	-	-	-	1,144,039	**1,144,039**
Total Monetary Liabilities		**425,586,308**	**322,617,105**	**182,670,721**	**42,269,726**	**8,152,241**	**1,144,039**	**982,440,101**
Net Monetary Assets/(Liabilities)		**(223,682,132)**	**(55,827,332)**	**149,424,465**	**133,746,381**	**2,981,710**	**91,019,255**	**97,662,347**
Unrecognised Loan Commitments[1]	3.91%	(121,701,153)	-	-	-	-	-	**(121,701,153)**
Interest Sensitivity Gap		**(345,383,285)**	**(55,827,332)**	**149,424,465**	**133,746,381**	**2,981,710**	**91,019,255**	**(24,038,805)**

[1] $65,736,438 was disclosed as unrecognised loan commitments in the prior year. This balance has been adjusted to include the undrawn balance of revolving credit loans.

Sensitivity Analysis

In managing interest rate risk NBS aims to reduce the impact of short term fluctuations. Over the long term, however, permanent changes in interest rates will have an impact on surplus. At 31 March 2023 it is estimated that a general increase of one percentage point in interest rates would increase NBS' surplus before income tax and equity by $630,934. (31 March 2022: $698,648). This analysis has been applied against all call and term deposits and interest received on mortgage advances, personal loans, investments, bank deposits and consumer lending and borrowings.

A decrease in interest rates would have the opposite impact on surplus than that described above.

20. Currency Risk

NBS is not exposed to currency risk.

21. Operational Risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to NBS' reputation. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. NBS aims to minimise the impact of operational risks by ensuring the appropriate risk management policies, controls, systems, staff and processes are in place. Where appropriate, risks are mitigated by insurance.

22. Capital Adequacy

NBS' objectives in relation to capital adequacy are to comply with regulatory requirements, to maintain a strong capital base to cover the inherent risks of the business and maintain a targeted credit rating, and to support future business development and growth.

NBS is subject to regulation. The Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 state that the trust deed must include a minimal capital ratio and this must be not less than 8% if the deposit taker has a credit rating. NBS' Trust Deed specifies that it's minimum capital ratio is 8% as long as NBS has a credit rating from an approved credit rating agency- which it currently does.

As at balance date all perpetual non-cumulative preference shares have full voting rights as such their contribution towards NBS 's capital is unrestricted. On this basis the Risk Weighted Capital ratio as at 31 March 2023 is 13.18% (31 March 2022 12.39%), as calculated under the Deposit Takers (Credit Ratings, Capital Ratios, and Related party Exposures) Regulations 2010 and the NBS Trust Deed.

The capital ratio is calculated as a percentage of NBS' capital to the sum of NBS' risk weight amount for credit risk and NBS' aggregate amount for market and operational risk.

NBS has, throughout the year, complied with all capital adequacy regulatory requirements pursuant to the Reserve Bank of New Zealand's "Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010.

NBS' policy is to maintain a strong capital base so as to maintain investor, creditor and client confidence and to sustain future development of the business. The impact of the level of capital on shareholders return is also recognised and NBS recognises the need to maintain a balance between higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Board of Directors has ultimate responsibility for capital adequacy, approves capital policy and establishes minimum internal capital levels and limits. NBS monitors its capital adequacy and reports this on a regular basis to the Board and on a monthly basis to the Trustee.

Notes to the financial statements

For the year ended 31 March 2023

23. Related Parties

A number of transactions are entered into with related parties (including key management personnel) in the normal course of business. Details of these transactions are outlined below.

Key management personnel are defined as being Directors of NBS and those personnel with a key responsibility for the strategic direction and management of NBS (being the Senior Leadership Team who report to the Chief Executive Officer). The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

(a) Loans and Advances to Related Parties	**Directors and Other Key Management Personnel**	
	31/03/2023	**31/03/2022**
Loans and advances outstanding at beginning of year	3,310,996	2,166,417
Net loans issued/(repaid) during the year	2,910,843	1,144,579
Loans and advances outstanding at end of year	**6,221,839**	**3,310,996**

No specific provisions have been recognised in respect of loans given to related parties and criteria. There were no debts with any of the above parties written off or forgiven during the year ended 31 March 2023 (March 2022: $nil). All loans made to related parties have been made in accordance with the NBS' lending policies. The above transactions (including interest rates and collateral) are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. A significant portion of the loans are residential and commercial.

(b) Deposits from Related Parties	**Directors and Other Key Management Personnel**	
	31/03/2023	**31/03/2022**
Deposits at beginning of year	977,268	1,032,004
Net deposits received/(withdrawals made) during the year	4,769,574	(54,736)
Deposits at end of year	**5,746,842**	**977,268**

The above deposits are unsecured and are repayable on demand. Interest rates are based on current market rates.

Notes to the financial statements

For the year ended 31 March 2023

(c) Key Management Compensation (Excluding Directors) Comprised

	31/03/2023	31/03/2022
Salaries and Short-Term Employee Benefits	1,450,270	521,456
Post-Employment Benefits	58,010	31,008
Total Compensation of Key Management (Excluding Directors)	**1,508,280**	**552,464**

(d) Directors Fees

	31/03/2023	31/03/2022
Amounts Received, or Due and Receivable by Directors	**387,000**	**337,584**

(e) Other Related Party Transactions

During the year ending 31 March 2023, NBS entered into transactions with related parties involving: Investment or return of share capital $647,500 returned (31 March 2022: $600,000 invested), Motor vehicle transactions $254,155 (31 March 2022: $299,599), insurance services $237,473 (31 March 2022: $nil) and human resource consultancy/ provision of temps $127,814 (31 March 2022: $132,458).

(f) Holdings of Perpetual Preference Shares

	31/03/2023		31/03/2022	
	Amount	Number of shares	Amount	Number of shares
Related parties held the following PPS shares	**600,000**	**600,000**	**1,247,500**	**1,247,500**

24. Personnel Costs

Personnel expenses disclosed in the Income Statement includes compulsory contributions to employees KiwiSaver funds. During the year ending 31 March 2023 NBS made contributions of $152,385 (31 March 2022: $203,399).

25. Subsequent Events

There have been no events subsequent to the balance date that would materially impact the financial statements.

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